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May 24, 2002

California Energy Commission
Attn: Scott Tomashefsky
Docket Unit
1516 Ninth Street, MS-4
Sacramento, CA 95814

RE: Docket Number: 99-DIST-GEN- (2) – Written Comments of California
Independent Petroleum Association

Dear Mr. Tomashefsky:

On behalf of the California Independent Petroleum Association (CIPA), I am writing to submit our association's formal comments on the California Energy Commission's (CEC) Draft Distributed Generation Strategic Plan (Docket # 99-DIST-GEN- (2)). We appreciate the opportunity to comment on this proceeding and apologize that our comments are being submitted after the deadline for written comments originally closed.

As you may be aware, CIPA is a non-profit trade association dedicated to representing the interests of independent oil and natural gas producers operating in California. Our association represents over 400 producers, service, and supply companies involved in the exploration and production of oil and natural gas.

California is the fourth largest oil producing state in the nation, ranking behind Louisiana, Texas, and Alaska. Because of local, state, and federal air quality regulations, most of California's oilfields are electrified, rather than being run off of individual internal combustion engines. As a result, electricity purchases are often the single largest per barrel cost a producer incurs. For some producers in the L.A. Basin, electricity costs amount to up to 65% of the invariable cost for each barrel of oil. As production and electricity costs continue to go up in California, many independents are faced with the difficult decision of trying to figure out how to reduce costs, or idle their wells outright.

Because of the nature of our business, and the extent of our dependency on electricity, we believe that independent producers are uniquely positioned to take advantage of

distributed generation (DG) opportunities in California. Over the last several years, our members have increasingly begun to look at DG as a means by which to lower their electricity costs, and help them remain viable energy producers in their own right. As a side issue, the advent of DG has also presented our members with new opportunities to make environmental improvements to their facilities such as displacing process flares with lower-polluting microturbines or fuel cells. As such, we applaud the commission's focus on the DG issue and the sentiments that are included in the draft plan.

First, we would like to note that we strongly disagree with those interests who suggest that the future of DG in California is limited, or that the CEC should not play a role as an advocate on behalf of the development of new DG resources throughout the state. To the contrary, we believe the CEC has a vital role to play in this discussion, and would welcome the commission to play a role as a leader in helping identify and eliminate those barriers preventing the development of DG on a wider scale. We strongly support the reports' assessment that the CEC should be engaged in collaborating with other government agencies and with private parties to identify opportunities and facilitate the development of DG. Towards that end, we would like offer ourselves, and our affiliate organization, the California Oil Producers Electricity Co-operative (COPE), as resources to you and your staff in the future.

Second, we would like to commend the draft report's conclusions on the need to develop reasonable and standardized regulations relating to interconnection. As noted on page 19 of the report, "regulatory uncertainty in California continues to be a major concern for those considering the deployment of distributed generation." Currently, interconnection standards vary wildly on project-by-project basis – even within the same utility service territory. In the past, CIPA members expressing interest in DG projects have been provided price quotes by the utilities that have varied between \$800 - \$70,000 for the purpose of conducting a simple interconnection study, with no guarantee that the DG unit will be connected in the end. This type of inconsistency is not only the source of a significant amount of frustration, but can also lead to the abandonment of an otherwise potentially viable project. We appreciate the report's call for the development of consistent interconnection standards and believe this issue should be made a priority as the commission moves forward.

Another near-term goal listed in the CEC's report we believe should receive priority attention is the issue of tariffs and other types of utility costs that are typically assessed on DG operations. Although developing consistent regulatory standards is a key goal, the imposition of excessive fees will almost certainly doom any new project. In addition to substantial capital costs, DG project proponents are faced with having to incur fees for interconnection studies and standby fees to name just a few costs. Limiting these costs,

and establishing a consistent fee pattern, is critical to ensuring more projects are made viable.

As a related item, we would urge the CEC to become a strong advocate in opposition to the imposition of new exit fees on DG resources. We believe this concept is dangerous from both a public policy and a legal standpoint. CIPA submits that the exit fees the Public Utilities Commission (PUC) is seeking to impose are the creation of the Legislature, which has given specific direction concerning the types of costs those fees are designed to recover. As a starting point, Public Utilities Code Section 367 allows recovery of costs that: (1) resulted from generation-related assets and obligations and power purchase contracts; (2) were being collected in commission-approved rates on December 25, 1995; and, (3) become uneconomic as a result of a competitive generation market. More importantly, the California Legislature provided that the cost recovery would terminate on December 31, 2001.

In addition, the subsequent passage of ABx1 X similarly does not permit the PUC to collect fees from the group of customers who have self-generation or DG. The legislature, when it enacted Water Code Section 80110, was clear that its solution to the issue of “departing load” was targeted at a narrow issue – the termination of direct access contracts at a certain date. The Legislature did not, as the PUC appears to believe, mandate cost recovery from all customers who departed from the utilities’ systems such as new DG interests – only those with direct access contracts. It should also be noted that while the opportunities provided by direct access may have significant economic benefits to a business interest, DG offers both economic and environmental benefits. This distinction alone, we believe, warrants that DG be treated separately by the PUC in its exit fee deliberations. We would urge the CEC’s report to reflect this position and lend its voice in opposition to the concept of adding exit fees to the list of fees DG customers will have to assume. As noted again on page 19 of the report, “the inability to resolve the regulatory uncertainties runs counter to the desire to encourage business development in the state.”

Fourth, we applaud the report’s goal on page 34 to provide incentives that encourage the development and deployment of DG. As stated above, DG offers a myriad of benefits to California’s independent producers – both economic and environmental. Despite these benefits, the capital costs of both microturbines and fuel cells can be difficult for a small producer to manage. Contrary to the assertion of those who contend the government shouldn’t be involved in subsidizing or encouraging DG, we believe extending financial incentives to small businesses is critical to the actual utilization of DG in the real world setting.


One example of a pro-active incentives approach is AB 2718 which is authored by Assemblywoman Jenny Oropeza (D-Long Beach) and sponsored by CIPA. The bill

would extend level one incentives as established by the PUC in Decision 01-03-073 for small-scale DG projects in oilfield operations that provide a net environmental benefit, such as displacing a process flare. The model outlined in our bill provides necessary financial incentives to small business owners while achieving a positive environmental objective. We would welcome the CEC's support for our bill and believe AB 2718 is a model for how incentive standards should be developed.

Finally, we would encourage the CEC to shift more of its attention in the near future (3-5 years) towards deploying new projects, rather than continuing to study many of the same issues that have already been examined. CIPA believes that the technology and the opportunities are in place to position California as a leader in the development of DG resources. Although continued research and examination of the issues surrounding DG are necessary, and many of the issues identified in the report are in need of more critical discussion, we would caution the commission against missing the opportunities that are currently in front of us, or delaying longer than we need to. We believe this point should be emphasized as either a new recommendation number nine, or as a subset of goal #8 to raise consumer awareness about distributed generation.

Thank you in advance for your consideration on our comments on this important issue. Please do not hesitate to contact me at (916) 449-6848 should you have any questions regarding our thoughts on this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "John C. Martini", with a long horizontal flourish extending to the right.

John C. Martini
Director of Public Affairs
California Independent Petroleum Association

cc: The Honorable Jenny Oropeza
Mr. Bob Fickes, Executive Director, COPE